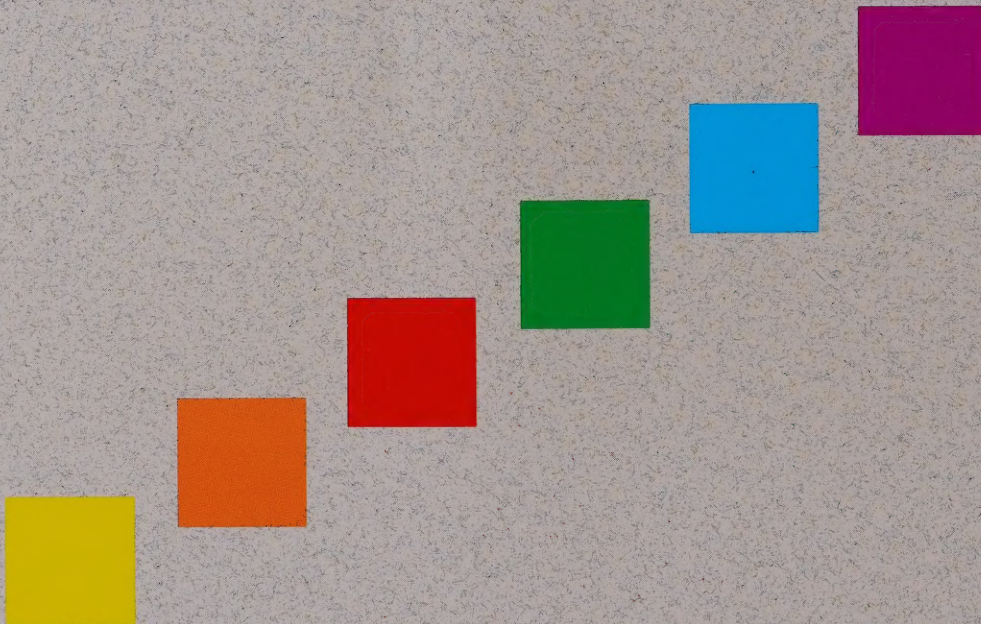


AR35

GENERAL
MOTORS OF
CANADA
LIMITED



In recent years, General Motors of Canada has been "building the future" – a future that will position the company to meet, with confidence, the increasing competitive challenge from automotive manufacturers around the world. The development of GM Autoplex in Oshawa – the largest concentration of automotive manufacturing and assembly in North America, the formation of CAMI Automotive Inc. at Ingersoll, a new product program for the Ste. Therese assembly plant, the injection of innovative technological advances into the production system, and a series of people development programs are key "building blocks" that will enable us to meet this challenge successfully.



HIGHLIGHTS

(millions of dollars)

	1986	1985	1984	1983	1982
Net sales	18,532.6	18,993.3	16,297.7	13,805.4	9,570.5
Net income (loss)	418.4	713.0	880.8	675.6	(71.7)
Net income (loss) percent of sales	2.3%	3.8%	5.4%	4.9%	(0.7%)
Income taxes (recoverable)	356.9	570.1	652.8	442.9	(61.4)
Other taxes	140.1	104.5	93.0	104.6	78.5
Total capital expenditures	1,318.3	674.4	267.5	342.1	324.2
Expenditures for plant and equipment	838.9	541.0	184.8	155.0	201.6
Expenditures for special tools	479.4	133.4	82.7	187.1	122.6
Net working capital	(81.5)	763.9	581.7	326.0	(727.2)
Payrolls	1,642.3	1,685.5	1,457.8	1,269.8	1,006.6
On-roll employment	45,994	48,106	45,391	43,410	36,503

UNIT SALES

	1986	1985	1984	1983	1982
Manufactured in Canada					
Passenger Cars	531,602	562,083	548,895	538,700	334,575
Trucks and Coaches	192,072	279,363	276,704	263,079	230,129
Total Factory Sales	723,674	841,446	825,599	801,779	564,704
Imported Vehicles	416,407	391,415	326,200	288,174	187,351
Total Unit Sales	1,140,081	1,232,861	1,151,799	1,089,953	752,055
Unit Sales by Area					
Canada	585,547	575,136	477,084	431,342	278,758
United States	548,904	647,108	653,494	640,005	456,167
Other Countries	5,630	10,617	21,221	18,606	17,130

PRESIDENT'S MESSAGE

The year 1986 was one of major achievement for General Motors of Canada.

Several strategic building blocks were put in place to provide a sound foundation for success in the coming years of ever-intensifying competition. The cornerstone of our Canadian strategy is GM Autoplex, located in Oshawa, which will be the largest motor vehicle manufacturing operation in North America. In addition, we have formed a joint venture to produce cars and specialty vehicles in Canada with Suzuki Motor Company, called CAMI Automotive Inc., and we also have announced a new product program for our Ste. Therese assembly plant.

These projects feature new people development programs, innovative technological advances and synchronous manufacturing systems which link our production directly to that of our suppliers. All these initiatives are critical elements in our overall strategy for sustained competitive success.

While the Canadian economy continued to expand in 1986, the growth of real gross domestic product slowed to 3.1% from 4.0% in 1985 and 5.5% in 1984. Part of the slowdown reflected

a sharp deterioration in Canada's merchandise trade balance. In the automotive sector, higher imports resulted in a deterioration in the balance on automotive products. Further deterioration in coming years may result from increased vehicle imports and high import content in vehicles assembled in Canada by offshore-based companies.

Strong consumer spending sustained a steady pace in motor vehicle sales in Canada. Total industry retail sales were 1,515,000 cars and trucks, down 17,000 units, or 1.1% from 1985. Passenger car sales were down 42,000 units or 3.7% to 1,096,000. Truck sales were a record 419,000 units, up 25,000 units, or 6.5%, from 1985.

GM of Canada was the only North American manufacturer to increase retail sales of both cars and trucks in Canada in 1986. General Motors dealers in Canada delivered 554,000 passenger cars and trucks, an increase of 17,000 units, or 3.0%, over 1985, and the highest combined unit volume since 1980. Passenger car sales rose by 5,000 units, or 1.2%, to 402,000 units, while truck sales rose by 12,000 units, or 8.2%, to 152,000 units. With these highly successful sales results, GM market penetration rose by 1.8 points to 36.7% for passenger cars and by 0.6 points to 36.2% for trucks.



G.A. Peapples
President and General Manager

"With the support of our customers, the Canadian Auto Workers, our suppliers, dealers and employees, we're building the future in Canada, right now."





TWO NEW PRODUCT OFFERINGS, THE PONTIAC TEMPEST AND THE CHEVROLET BERETTA, DOMINATE THE GENERAL MOTORS OF CANADA DISPLAY AT THE TORONTO AUTO SHOW. TOGETHER WITH THE BERETTA'S PARTNER, THE FOUR-DOOR CHEVROLET CORSICA SEDAN, THE THREE NEW MODELS WERE INTRODUCED EARLY IN 1987 AND WILL MAKE BIG INROADS IN THE HOTLY CONTESTED COMPACT CAR SEGMENT OF THE MARKET.

Reflecting this strong domestic market sales performance, GM of Canada revenues totalled \$18.5 billion in 1986, second only to the 1985 record of almost \$19 billion. Net income of \$418 million was down by \$295 million from \$713 million in the prior year.

The earnings change primarily reflects the loss of export units due to a four-month conversion at Oshawa's truck plant to production of the all-new Chevrolet and GMC full-size light-duty pickup trucks, and a one-month change-over at the Oshawa #1 car plant to base coat/clear coat paint technology. These conversions are important first steps in the development of GM Autoplex, which is the major component in our long-term investment strategy in Canada. Earnings were also affected by a cutback to one shift at the Scarborough van plant for the last two months of 1986, as well as sales incentive program costs. As a result of these production losses, total factory sales of cars and trucks dropped to 724,000 units from 841,000 units in 1985.

Internationally, GM of Canada's Canadian Export Operations (CANEXPO) increased sales by almost 10% in 1986, with much of this increase involving traditional customers in Argentina, Chile, Colombia and Venezuela.



Sales at GM of Canada's Diesel Division, which manufactures locomotives and military vehicles and sells Detroit Diesel Allison engines and transmissions in Canada, were down slightly from 1985. Customers included Indonesia, Botswana, the Canadian Pacific Railway, and for the first time, Via Rail.

On the components side, GM of Canada's St. Catharines engine plant underwent a major conversion to production of V6 Multi-Port Fuel-Injected Engines. Major progress was made at the Autoplex stamping plant with the arrival of seven computer-controlled tri-axis metal stamping presses.

Top — GM of Canada's Diesel Division in London, Ontario, delivered this F40PH-2 locomotive to VIA Rail as part of an ongoing contract. Bottom — An eight-wheeled light armoured vehicle (LAV25), part of an order from the U.S. Marine Corps, is prepared for delivery.



GM's new product programs for 1986 offered leadership in styling, technology and performance. The Buick LeSabre and Oldsmobile Delta 88 brought new levels of performance and luxury to our customers in a front-wheel-drive, fuel-injected package. These vehicles have been joined by Pontiac's Bonneville Sedan, which won the Automotive Journalists Association of Canada award for "Car of the Year". The Buick Riviera, Oldsmobile Toronado and Cadillac Eldorado and Seville feature aerodynamic styling, fuel-injection and the latest electronics in the personal luxury class.

GM of Canada's sponsorship of the Player's Challenge Series of motor-sports was also a highlight of 1986. The eight-race series featured Chevrolet IROC-Z Camaros and Pontiac Trans-Am Firebirds with engines built at the St. Catharines engine plant and was a resounding success throughout the racing season.

In 1987, we look forward to the successful introduction of important new model offerings in the hotly contested compact car segment, with the new Chevrolet Corsica sedan, Beretta coupe and the Pontiac Tempest sedan. Advanced aerodynamic styling, fuel-injected power and state-of-the-art

manufacturing techniques give these new cars the competitive edge.

In August 1986, GM of Canada announced the formation of a joint venture with Suzuki Motor Co. Ltd. named CAMI Automotive Inc. Suzuki also was able to increase shipments to GM of Canada in 1986, which resulted in sufficient volume to allow for nationwide distribution of the Chevrolet Sprint and Pontiac Firefly.

The increased availability of the Sprint and Firefly will pave the way for the second generation of these products to be manufactured by CAMI in Ingersoll, Ontario. This project, along with GM Autoplex and the announcement of the Chevrolet Celebrity program for Ste. Therese, are major strategies which we are proud to have put in place in 1986. They are part of General Motors' ongoing investment commitments in Canada which total \$7 billion since 1980. Actual capital expenditures reached more than \$1.3 billion in 1986, including over \$700 million at GM Autoplex.

Each of these projects clearly reaffirms our commitment to developing an internationally competitive automotive industry in Canada, operating under the Auto Pact. CAMI Automotive sets an important example for other new plants in Canada with its stated intention to achieve Auto Pact standards of

production and Canadian value added from its first years of operation.

The next few pages will expand on these important projects and other major initiatives which we are undertaking in such areas as people development, innovative technology, new supplier partnerships and marketing strategies. These programs will yield superior customer value in every car and truck we sell and will enhance GM of Canada's competitive position in the global automotive industry of the 1990s. With the support of our customers, the Canadian Auto Workers, our suppliers, dealers and employees, we're building the future in Canada, right now.



G.A. Peapples
President and General Manager



GM AUTOPLEX

On March 24, 1986, GM of Canada announced a \$2 billion investment in the Oshawa car and truck assembly operations to create GM Autoplex. This was the largest single investment announcement in Canadian manufacturing history. When completed in 1988, Autoplex will be one of the world's most modern and North America's largest motor vehicle manufacturing complex, with the capacity to produce 730,000 vehicles annually.

GM Autoplex will feature the latest technology, advanced quality control techniques and a highly trained workforce. It will be the heart of a complete synchronous manufacturing system, with our vehicle production linked directly to the Canadian supplier network and our own component manufacturing facilities. At Autoplex, we will produce two core General Motors product lines: the all-new, world-class mid-size Buick Regal, scheduled for introduction in September 1987 and

the new, full-size light-duty Chevrolet & GMC pickup trucks, with an official launch in April 1987.

GM Autoplex will make full use of automated production systems, flexible scheduling, and new concepts in assembly involving employee work groups. Automated guided vehicles will convey each vehicle to work stations where groups of employees will work together. Each vehicle will be released to the next work station only when our employees are completely satisfied that quality standards have been met. Autoplex employees have been undergoing extensive training for more than two years in such areas as new technology, group dynamics and leadership skills, to prepare them fully for their new responsibilities.

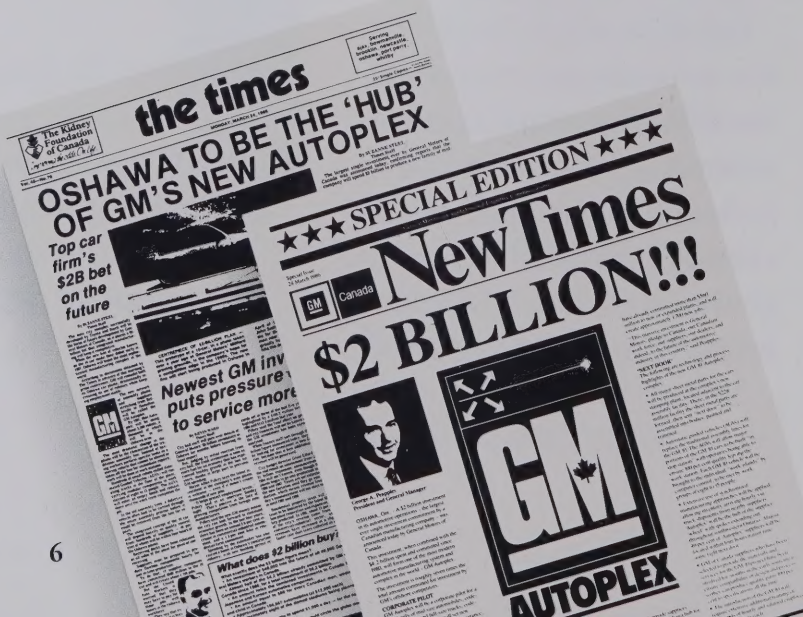
Work on Autoplex has been progressing well since the March 1986 announcement. The truck plant has

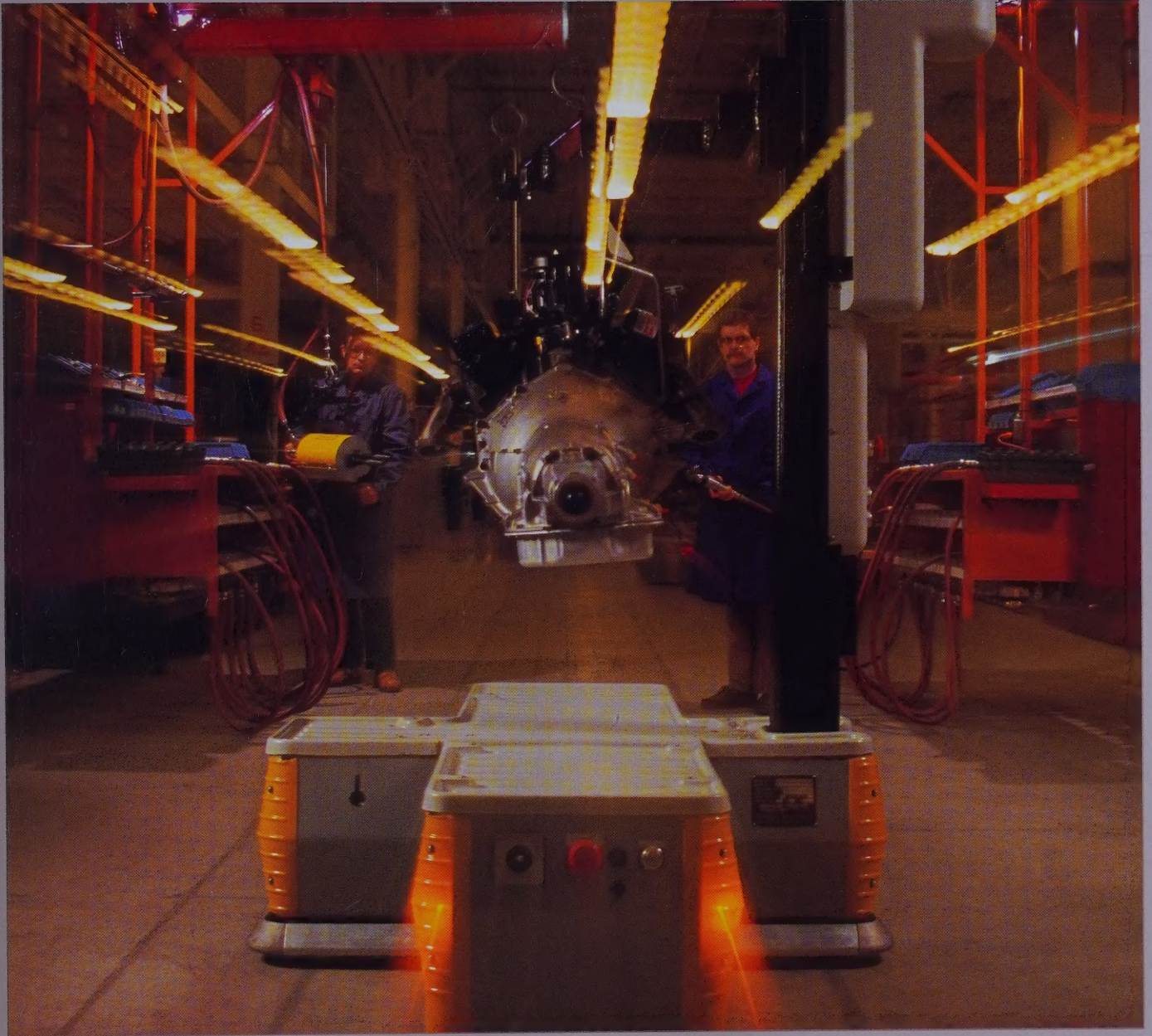


been completely retooled, doubled in size to 2.4 million square feet under one roof, and has been transformed into what we believe is the most advanced truck manufacturing facility in the world.

The truck plant features a state-of-the-art modular paint shop which makes extensive use of robotic painting and sealing. It employs the world's first application of a water borne base coat/clear coat finish, providing outstanding product quality. The fully automated body shop features robotics for process repeatability and laser camera stations to check critical dimensions. The use of automated guided

George A. Peapples, President and General Manager, proudly shows a model of GM Autoplex to Prime Minister Brian Mulroney and Ontario Premier David Peterson.





AUTOMATED PRODUCTION SYSTEMS, FLEXIBLE SCHEDULING, AND NEW CONCEPTS IN ASSEMBLY INVOLVING EMPLOYEE WORK GROUPS WILL ALL BE PART OF THE DEVELOPING GM AUTOPLEX IN OSHAWA. AUTOMATED GUIDED VEHICLES WILL CONVEY AUTO BODIES AND PARTS TO WORK STATIONS WHERE GROUPS OF EMPLOYEES WILL WORK TOGETHER.

vehicles permits "stop and go" processing, flexible scheduling, and significant work environment improvements. Production of the new pickups began in December 1986, and the plant will reach full production by September 1987.

In November 1986, production began in a 350,000-square-foot facility to produce pilot build vehicles for the new Buick Regal in a simulated production environment prior to the actual full-scale start of production. On December 23, 1986, the Oshawa #2 car assembly plant ceased production for conversion to the new production process and concepts for the Buick Regal.

GM of Canada is particularly honoured to have been chosen as the location for this program, the first full vehicle pilot project for our company. This is one of the most extensive pilot programs in GM's history, incorporating many new production techniques, including three major robotic cells in the trim and hardware areas and an automated guided vehicle and electrified monorail system throughout the production process. Over 1,200 hourly and salaried employees in Oshawa are involved in the pilot program, carried out in cooperation with GM's Chevrolet-Pontiac-Canada Car Group.

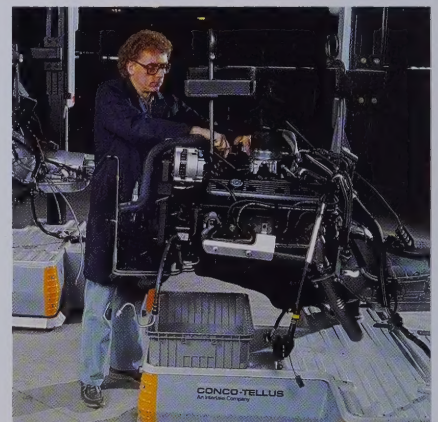
The Autoplex contiguous metal stamping facility will stamp and form most of the sheet metal parts to be sent "next door" to the car plant for

assembly and painting. Between July and December of 1986, seven computer-controlled tri-axis metal stamping presses were installed and are currently in the trial stages. The first dies and machine tools and the plant's main computer system have been installed. On-site stamping is an innovative approach which will provide superior quality and efficiency.

Critical to the entire philosophy underlying GM Autoplex is the development of new supplier relationships. Nearly half of our key suppliers will be located within four hours' transit time from Oshawa to provide for just-in-time delivery to the new "point-of-use" receiving system which will minimize costs and maximize quality at all stages of materials handling.

An integrated system of synchronous manufacturing will significantly improve quality, cost and delivery from our Canadian supplier community. This approach offers our suppliers new opportunities to take on expanding responsibilities and play an active role in our programs from the design stage forward. The supplier community has responded to the challenge with over half a billion dollars in new capital investment and the creation of hundreds of new jobs in Canada.

With these major elements in place, GM Autoplex is positioning GM of Canada to be the leader in motor vehicle manufacturing, and will enable us to set the standard for highest quality production.



Top — Using laser vision, a robot precisely lines up a windshield before firmly pressing it into place on a new Buick Regal in a simulated assembly environment prior to the actual full-scale start of production.

Bottom — In GM Autoplex, automated guided vehicles carry engines to the assembly area.





IN THE MOST ADVANCED TRUCK MANUFACTURING FACILITY IN THE WORLD, A GLISTENING COAT OF PAINT IS APPLIED TO A PICKUP TRUCK BODY IN THE STATE-OF-THE-ART MODULAR PAINT SHOP AT GM AUTOPLEX. IT EMPLOYS THE WORLD'S FIRST APPLICATION OF A WATER BORNE BASE COAT/CLEAR COAT FINISH, PROVIDING OUTSTANDING PRODUCT QUALITY.

On December 19, 1986, we announced that our Ste. Therese assembly plant would begin building the Chevrolet Celebrity in May 1987 after a three month conversion.

This news has been welcomed enthusiastically by our employees and the entire Quebec community. The Celebrity is a major competitor at the heart of the GM product line and was the best-selling car in North America in 1986. This front-wheel-drive vehicle continues as a major element in GM's forward product program.

The announcement was particularly important because it represents the recognition of a major turnaround in product quality, labour-management relations and operating efficiencies at Ste. Therese through a concerted effort by the Canadian Auto Workers, the employees and plant management.

The commitment to improvement by the Ste. Therese employees was particularly evident in the new local labour agreement at the plant, ratified in September, which is among the most progressive in the industry. Employees will be trained as multi-job workers and encouraged to rotate through the various operations in their work unit.

The agreement also establishes joint union-management committees to address and resolve issues continually, signaling a renewed long-term commitment to excellence by our Ste. Therese workers.

We are proud of the progress made at Ste. Therese, and we are confident that with the new technology being put in place, Ste. Therese will become an even greater force in Canadian automotive production.



A collage depicting the history of auto production at the Ste. Therese plant in Boisbriand, Quebec, commemorates GM of Canada's announcement late in 1986 of a new product program for the plant which will assemble the Chevrolet Celebrity.





THE LIGHTS SHINE BRIGHTLY AT THE STE. THERESE FACILITY, THE NEW HOME OF CHEVROLET CELEBRITY ASSEMBLY IN CANADA. A MAJOR TURNAROUND IN PRODUCT QUALITY, LABOUR-MANAGEMENT RELATIONS AND OPERATING EFFICIENCIES AT STE. THERESE THROUGH A CONCERTED EFFORT BY THE CANADIAN AUTO WORKERS, THE EMPLOYEES AND PLANT MANAGEMENT, MADE THE DECISION TO RETOOL POSSIBLE.

CAMI AUTOMOTIVE INC.

On August 27, 1986, GM of Canada and Suzuki Motor Co. Ltd. announced the formation of a \$500 million joint venture — CAMI Automotive Inc. — to manufacture 200,000 small cars and sport utility vehicles annually.

These vehicles, based on the current Sprint and Firefly subcompact cars and the sporty Suzuki Samurai, will be major new entrants in the growing market for entry level and specialty vehicles in North America. This new production base will complement the existing industry structure in Canada.

The CAMI facility will be modelled after Suzuki's Kosai #2 Plant in Japan, which currently produces the Chevrolet Sprint and Pontiac Firefly and is one of the most efficient motor vehicle manufacturing facilities in the world. It will have an additional assembly line for the production of the sport utility vehicle based on Suzuki's Samurai. The

highly automated, 1.6 million square foot plant will be located on a 570-acre site near Ingersoll, Ontario. It will feature a contiguous stamping facility with three tri-axis metal stamping presses. Materials will be received on a just-in-time basis with a substantial proportion sourced from nearby Canadian component suppliers.

Following extensive feasibility studies with more than 100 Canadian suppliers, CAMI is committed to achieving Auto Pact levels of Canadian production and value added in its first years of operation. In addition to the 2,000 direct assembly jobs created at CAMI, this commitment will result in a significant number of new supplier jobs and sets an important example for other offshore investors in Canada.



Traditional Japanese sake was used for a ceremonial toast at Ontario Place in Toronto to seal the signing of a joint venture between General Motors of Canada and Suzuki Motor Co. Ltd. Taking part were (left to right), Bob White, President of the Canadian Auto Workers; Osamu Suzuki, President of the Suzuki Motor Co. Ltd.; George A. Peapples, President and General Manager of General Motors of Canada; Ontario Premier David Peterson; Roger B. Smith, Chairman of General Motors Corporation and the Honourable Michel Côté, Minister of Regional Industrial Expansion.





Turning the first sod to make way for construction of an automotive assembly plant for CAMI Automotive Inc., are (left to right), David Peterson, Premier of Ontario; Dr. Bruce Halliday, Federal MP; Bob White, President of Canadian Auto Workers; Masayuki Ikuma, President of CAMI Automotive Inc.; George A. Peapples, President and General Manager of General Motors of Canada; Walter Wilson, Mayor of South West Oxford and Doug Harris, Mayor of Ingersoll.

An aerial photograph shows part of the 570-acre site near Ingersoll, Ontario where a highly automated 1.6 million square foot plant will turn out Chevrolet Sprint, Pontiac Firefly and sport utility vehicles. Thousands flocked to the site for the announcement in October of last year.

CAMI sets another important precedent because it has recognized and chosen to work with the Canadian Auto Workers Union. This represents an important accommodation between the Canadian and Japanese systems of labour relations. CAMI employees will operate under a production and management system which utilizes many Suzuki features while preserving wages, benefits and seniority which more closely resemble the Canadian automotive norm.

Training and development will be an ongoing process for CAMI employees. Many employees will be sent to Japan resulting in total training of more than 50,000 hours. Many thousands of additional training hours will be provided in Canada before the plant reaches full production. Areas of learning will include application of statistical controls, as well as principles and procedures unique to the Suzuki production and management systems.

We are pleased that Ingersoll will be the location for our joint venture facility, and we look forward to sharing this learning experience with our Japanese partners at Suzuki.

TECHNOLOGY

GM of Canada's commitment to product quality and manufacturing leadership is ever-present in the major investment programs being undertaken throughout our operations.

The use of automated guided vehicles and electrified monorail systems in the car and truck facilities at GM Autoplex will allow for superior quality throughout the process. Also, it will provide new production efficiencies, as each vehicle will stop only at the required workstations for its particular build specifications. Extensive use of robotics will ensure repeatability and laser vision systems will check dimensional accuracy.

Autoplex's contiguous stamping facility also improves quality and efficiency. Its computer-controlled, tri-axis metal stamping presses reduce die change time from four hours to less than ten minutes and ensure that every piece is precisely located in the die cavity.

New manufacturing technology is not limited to our vehicle assembly plants. Extensive new programs also are underway at many of our component operations.

Several major new programs were put in place in our St. Catharines operations in 1986. This complex, which encompasses the foundry,

engine and axle plants, forms the largest automotive component manufacturing base in Canada, employing almost 10,000 people.

At the St. Catharines foundry, new rotary iron pouring systems were installed in 1986, which completed the changeover from manual iron pouring for all five molding lines. This technology will provide consistency and repeatability for our castings. Further innovations include a new core sand mixing system, state-of-the-art casting cleaning equipment and experimental robotic grinding which will enable the foundry to retain its position as a world-class supplier in both quality and cost.

During 1986, the St. Catharines engine plant underwent one of the largest model changes in its history with the introduction of the V6 2.8 litre Multi-Port Fuel-Injection engine and the V8 Throttle Body Injection truck engine. Both of these programs involved extensive retooling and technological innovations. The St. Catharines V6 engine facility is now one of the most modern engine assembly systems in North America. Quality is further enhanced by the supply of precision forged rods from the axle plant and gray iron castings from the foundry.

For the 1988 model year, the St. Catharines axle plant will produce the rear disk brake assembly and the front rotor for the Buick Regal, along

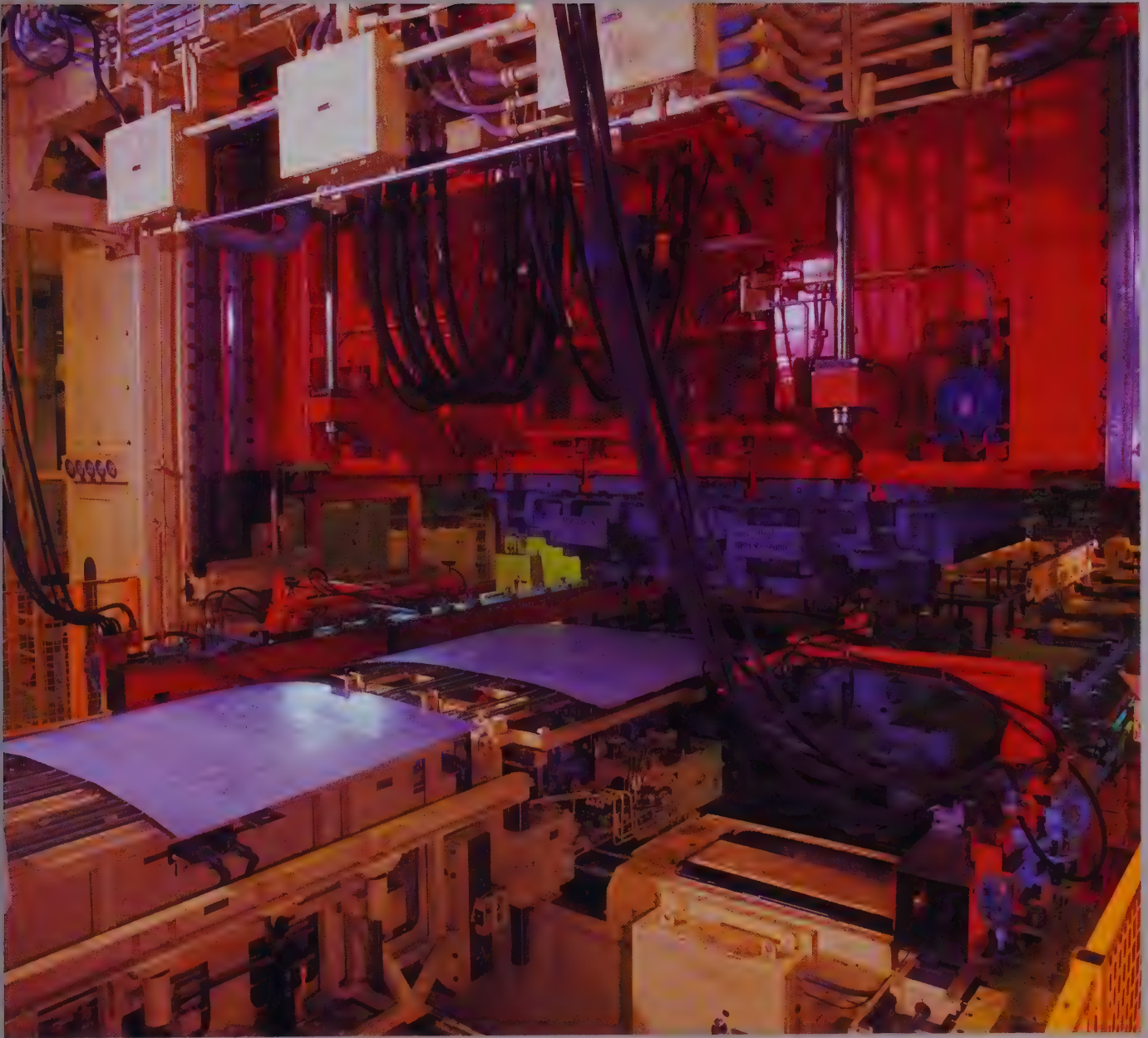
with the two and four-wheel drive rear axle for the new pickup truck being built at Autoplex.

GM of Canada's major capital spending programs are ensuring that the vehicles we build have the highest quality processes and components available anywhere in the world. Technological advances such as these are resulting in the production of internationally competitive products right here in Canada.



Constant attention to the quality of all parts produced at GM of Canada's metal casting plant at St. Catharines, Ontario, ensures customer satisfaction.





A GIANT COMPUTER-CONTROLLED TRI-AXIS METAL STAMPING PRESS, ONE OF NINE BEING INSTALLED IN GM AUTOPLEX'S CONTIGUOUS STAMPING PLANT, REDUCES DIE CHANGE TIME FROM FOUR HOURS TO LESS THAN TEN MINUTES AND ENSURES THAT EVERY PIECE IS PRECISELY LOCATED IN THE DIE CAVITY.

TRAINING

Products are not built by technology alone. People make the difference. At GM of Canada we understand the importance of our 46,000 employees. Extensive training and development programs are underway in all our operations. Through these programs our employees will become aware of their importance to GM and the contribution they can make. Having the best people and the best technology ensures that we will have the best products for years to come.

At GM Autoplex, all employees have received and will continue to undergo extensive training. Skills and personal development training programs have been in place for more than two years, and \$250 million is forecast for training programs at Autoplex over the next five years.

The goal of these programs is to ensure that our employees learn the latest statistical process control and problem-solving techniques and have a full understanding of quality concepts, safety awareness and of their own importance to the company, the plant and the product. Most importantly, training ensures that each employee is an active participant in the group assembly process.

EMPLOYMENT EQUITY

In 1986, we formally affirmed our commitment to the pursuit of equality in the working environment with the creation of an important new function — Divisional Coordinator of Employment Equity Programs. This position has been established to facilitate the development of a formal Employment Equity Plan for the organization with significant progress made this year.

GM believes that employment equity is a positive management strategy which enhances efficiency by affording each employee the opportunity to utilize all of his or her skills and abilities.

This approach will complement the ongoing efforts of the Women's Advisory Council and our individual Local Affirmative Action Committees, and will assist GM of Canada in achieving an important goal — a skilled and representative workforce.



LABOUR RELATIONS

During 1986, the Canadian Auto Workers (CAW) and GM of Canada continued to work together to discuss and resolve several significant issues of common interest. These constructive discussions led to the new local labour agreement at Ste. Therese and similar efforts between the CAW and Suzuki Motor Co. Ltd. paved the way for the CAMI joint venture.

A further example of how creativity and cooperative efforts with the CAW have yielded mutual benefit was an agreement reached in 1986 involving the Windsor trim plant, which supplies trim material for several U.S. plants and seat assemblies to the Detroit/Hamtramck plant in Detroit, Michigan on a just-in-time basis. As a result of our discussions with the CAW, it was agreed to extend the length of our labour agreement for the Windsor trim plant to ensure continued supply to our U.S. customers. Without this agreement several hundred jobs could have been jeopardized.

GM of Canada is proud to be associated with the CAW in these initiatives and we look forward to further such cooperative efforts in the interest of all our employees.



AT GM AUTOPLEX, ALL EMPLOYEES HAVE RECEIVED AND WILL CONTINUE TO UNDERGO EXTENSIVE TRAINING. IN THE BUICK REGAL PILOT BUILD PROGRAM, INSTRUCTORS EXPLAIN THE FEATURES OF THE NEW ASSEMBLY PROCESS.

SYNCHRONOUS MANUFACTURING

GM of Canada is actively forging new supplier relationships with major steps taken during 1986.

GM Autoplex is the centerpiece of this effort. When complete, Autoplex will be a fully integrated synchronous manufacturing system. Materials will be received on a just-in-time basis from our allied suppliers in St. Catharines and Windsor, and from outside suppliers, many of whom will be located within four hours of GM Autoplex. This new production system will yield substantial benefits in inventory reduction, cost control and quality improvements and will enable us to increase the discipline of our overall production system.

We have encouraged supplier involvement in our design process to ensure that component designs are compatible with our manufacturing processes. Suppliers have been an integral part of our Autoplex programs from the earliest stages as members of Product Development Teams, which include representatives from GM's design, engineering, manufacturing and purchasing staffs. The benefits of this coordinated team approach are now being realized as Autoplex becomes a reality.

All suppliers of components for our new Buick Regal cars produced at Autoplex must achieve world-class quality and have in place the latest quality assurance systems.

These new supplier relationships are a critical resource for GM of Canada and we depend on their dedication to continuous improvement. It is only in full partnership with our suppliers that we can ensure that every component of every vehicle we produce is the best it can be.



The Just-In-Time inventory delivery system will be a key element in the synchronous manufacturing process, significantly reducing inventory cost.



MARKETING STRATEGIES

The year 1986 also saw the implementation of several important new strategies to help us compete effectively in today's changing marketplace.

Our marketing staff initiated a major reorganization to enable General Motors of Canada to become more market-driven. The restructuring is an effort to recognize the different economic and marketing climates in the various regions of this country. Three regional marketing offices have been established, in Calgary, Toronto and Montreal. The new organization will enhance the effectiveness of our near and long-term marketing plans through a special emphasis on customer needs.

Another new initiative, announced at yearend, was the establishment of a totally new specialized import dealer network, which will draw selected offshore-produced cars and trucks from GM's extensive worldwide operations. This network, our first new franchise in nearly 75 years, is a response to increasing consumer demand for specialty products and service. Our new dealers will have a strong customer focus and will provide a specialized buying, ownership and operating experience for our customers.

The new network will be introduced in the fall of 1987 and will be expanded over the balance of the decade to most areas of Canada.



MORE THAN 40,000 SPECTATORS WATCHED THE CAMAROS AND FIREBIRDS BATTLE FOR THE LEAD DURING THE FIRST-EVER ROAD RACE ON TORONTO STREETS AROUND THE CANADIAN NATIONAL EXHIBITION GROUNDS. ALL ENGINES USED IN THE COMPETING CARS WERE PRODUCED AT THE ST. CATHARINES ENGINE PLANT.

COMMUNITY INVOLVEMENT

GM of Canada has always made a major contribution to the quality of life in the communities in which it operates and throughout Canada. In 1986, GM of Canada expanded its country-wide program of donations, grants and sponsorships in several key areas.

Four additional universities became recipients of GM of Canada grants in 1986, bringing the number of universities supported to thirteen with total commitments of \$1.9 million.

Other educational institutions have benefitted from the company's donations of vehicles and equipment for automotive training programs.

In 1986, GM of Canada's participation in United Way campaigns across Canada continued at a high level. The enthusiastic support of GM employees, coupled with a significant corporate contribution, provided \$3.4 million to United Way agencies in Canada.

To encourage the learning of practical business skills by Canada's young people, GM of Canada continued its support of Junior Achievement in major centres across Canada.

Sponsorships of many cultural activities not only provided financial assistance to theatres, opera companies, ballets and orchestras, but created excellent opportunities for GM



employees to attend sponsored performances. The number of hospital campaigns has dramatically increased over the past two years. GM of Canada is currently contributing to twelve hospitals, representing a total commitment of nearly half a million dollars.

Beyond the financial contributions which GM of Canada makes are the endless voluntary contributions in time and effort by our employees and retirees. These range from serving on boards of educational, charitable, cultural and civic organizations to canvassing for major fund-raising drives and involvement in amateur sports.

Members of an Ontario camp for children with cancer demonstrate their appreciation to GM of Canada for the use of a van. The Company supports a wide variety of activities in communities throughout Canada.

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In summary, 1986 was truly a year of outstanding accomplishments at GM of Canada. Our programs at Autoplex and Ste. Therese are now well underway. CAMI Automotive has been established and the benefits of its substantial contributions to the strength of the Canadian auto industry will soon be felt.

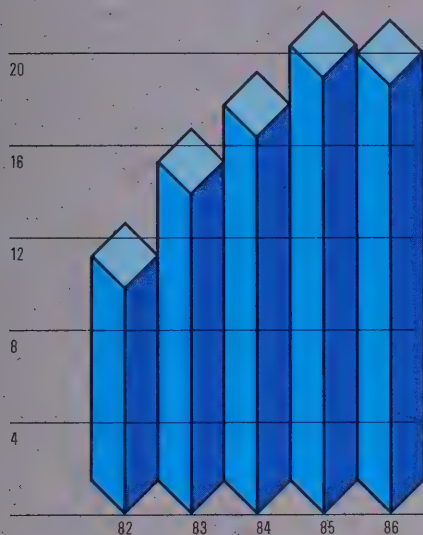
These projects will feature innovative technology, highly trained and dedicated employees, top quality suppliers, innovative marketing techniques, and above all, people who believe in the future of their company and their communities.

These are the blocks upon which the new GM of Canada is being built — one which will forge ahead as the driving force in the Canadian automotive industry for many years to come.

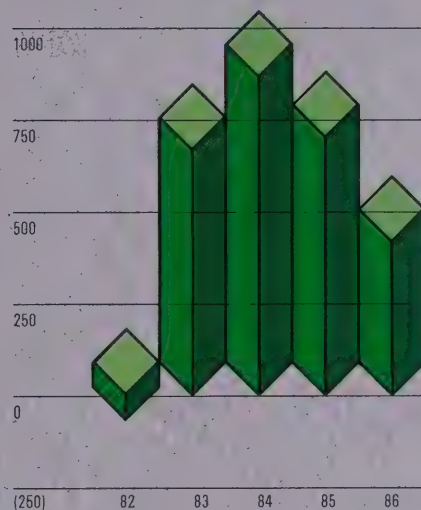


HIGHLIGHTS OF FINANCIAL AND OPERATING INFORMATION 1982-86

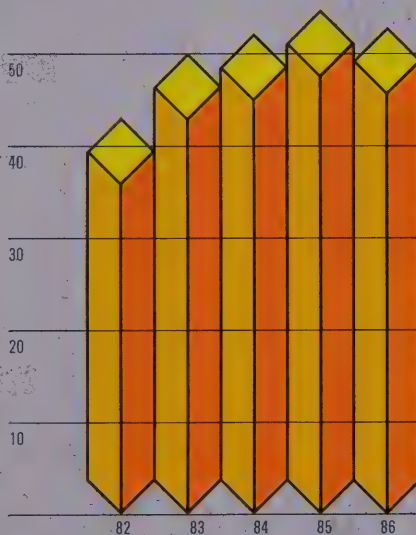
Net Sales
\$ BILLIONS



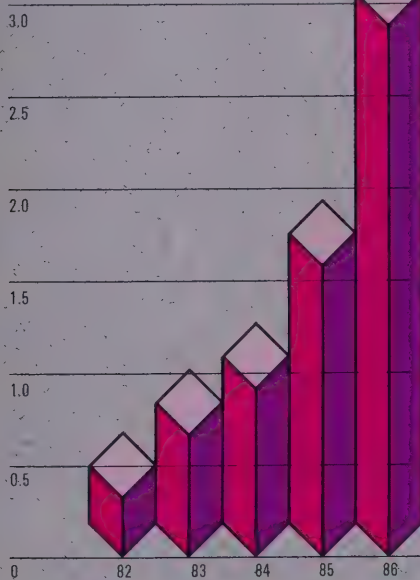
Net Income
\$ MILLIONS



Employment
THOUSANDS



Capital Investment*
\$ BILLIONS



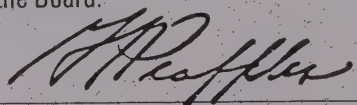
*CUMULATIVE SINCE 1982

BALANCE SHEET*December 31, 1986 with comparative figures for 1985 (thousands of dollars)*

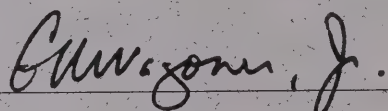
ASSETS	1986	1985
Current Assets:		
Cash	\$ 2,786	\$ 571
Marketable securities, at cost (market value 1985 — \$488,189)	—	488,655
Accounts and notes receivable:		
Trade — affiliated companies	189,213	301,545
Other trade and sundry	195,785	207,434
Inventories	995,745	1,069,604
Prepaid expenses	56,346	50,350
Deferred income taxes	122,772	123,702
Total current assets	1,562,647	2,241,861
Property:		
Real estate, plants and equipment (Note 2)	3,994,963	3,236,994
Less accumulated depreciation	1,583,206	1,412,102
Net real estate, plants and equipment	2,411,757	1,824,892
Special tools — less amortization	450,638	61,805
Net property	2,862,395	1,886,697
Equity in Net Assets of Associates (Note 3)	65,929	—
Other Assets	218,394	226,698
Total	\$4,709,365	\$4,355,256

Reference should be made to the Notes to Financial Statements.

Approved by the Board:



Director



Director

LIABILITIES	1986	1985
Current Liabilities:		
Bank loans and cheques in transit	\$ 312,254	\$ 242,633
Accounts payable:		
Trade — affiliated companies	57,687	7,851
Other trade and sundry	449,064	542,554
Income and other taxes payable	197,840	70,242
Other accrued liabilities	627,304	614,700
Total current liabilities	1,644,149	1,477,980
Long-term Debt (Note 4)	100,000	—
Deferred Income Taxes	285,319	412,769
Other Liabilities	247,772	234,481
Shareholder's Equity		
Share capital without par value:		
Authorized:		
An unlimited number of common shares		
Issued:		
703,250 shares	70,325	70,325
Contributed surplus (Note 3(c))	36,325	3,212
Net income retained for use in the business	2,325,475	2,156,489
Total shareholder's equity	2,432,125	2,230,026
Total	\$4,709,365	\$4,355,256

STATEMENT OF INCOME AND NET INCOME RETAINED FOR USE IN THE BUSINESS
Year ended December 31, 1986 with comparative figures for 1985 (thousands of dollars)

	1986	1985
Net Sales	\$18,532,562	\$18,993,305
Costs and expenses:		
Cost of sales and other operating charges, exclusive of items listed below	17,175,166	17,192,879
Selling, general and administrative expenses	330,891	301,433
Depreciation of plants and equipment	239,183	218,837
Amortization of special tools	90,555	122,695
Total	17,835,795	17,835,844
Operating income	696,767	1,157,461
Other income less income deductions — net	85,023	129,965
Interest expense:		
Interest on capital leases	927	2,555
Interest on long-term debt	384	—
Other interest	5,126	1,815
Total	6,437	4,370
Income before income taxes	775,353	1,283,056
Income taxes (Note 5)	356,918	570,081
Net income before share of loss of associated companies	418,435	712,975
Share of loss of associated companies	20	—
Net income for the year	418,415	712,975
Net income retained for use in the business at beginning of the year	2,156,489	1,686,557
Total	2,574,904	2,399,532
Dividends paid	249,429	243,043
Net income retained for use in the business at end of the year	\$ 2,325,475	\$ 2,156,489

Reference should be made to the Notes to Financial Statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1986 with comparative figures for 1985 (thousands of dollars)

	1986	1985
Operating Activities		
From operations:		
Net Income	\$ 418,415	\$ 712,975
Depreciation of plants and equipment	239,183	218,837
Amortization of special tools	90,555	122,695
Deferred income taxes	(127,450)	173,983
Loss on disposal of property	7,825	1,866
Share of loss of associated companies	20	—
Working capital provided from operations	628,548	1,230,356
Net change in non-cash operating working capital items	310,897	(813,625)
Cash provided by operating activities	939,445	416,731
Dividends paid	249,429	243,043
Cash available for investment	690,016	173,688
Investing Activities		
Expenditure for real estate, plants and equipment	838,875	541,035
Expenditure for special tools	479,387	133,423
Proceeds on disposal of property	(5,001)	(1,990)
Investment in associated companies	65,929	—
Cash used on investing activities	1,379,190	672,468
Cash deficiency before financing	689,174	498,780
Financing Activities		
Increase in long-term debt	100,000	—
Contributed surplus	33,113	—
Cash provided by financing activities	133,113	—
Decrease in cash and cash equivalents	556,061	498,780
Cash and cash equivalents at beginning of year	246,593	745,373
Cash and cash equivalents at end of year	\$ (309,468)	\$ 246,593
Cash and Cash Equivalents		
Cash	\$ 2,786	\$ 571
Marketable securities	—	488,655
Bank loans and cheques in transit	(312,254)	(242,633)
	\$ (309,468)	\$ 246,593

Reference should be made to the Notes to Financial Statements.

AUDITORS' REPORT

*To the Shareholder of
General Motors of
Canada Limited:*

We have examined the balance sheet of General Motors of Canada Limited as at December 31, 1986 and the statements of income and net income retained for use in the business and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins + Sells

Chartered Accountants
January 20th, 1987

NOTES TO FINANCIAL STATEMENTS *December 31, 1986*

NOTE 1. *Significant Accounting Policies*

The financial statements have been prepared in accordance with generally accepted accounting principles, and reflect the following policies:

Transactions in Foreign Currencies:

Transactions in foreign currencies have been stated in Canadian currency at the average rate of exchange for the months in which they occurred. Assets and liabilities which are to be settled in foreign currencies have been stated in Canadian currency at the rates of exchange in effect at the balance sheet date. Forward exchange contracts except specific hedges of future commitments are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Premiums and discounts on such contracts are amortized over the lives of the respective contracts. Gains and losses on translation of foreign currencies are included in other income.

Income Taxes:

Income taxes are accounted for using the tax-allocation basis, under which income taxes are provided for in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to claiming capital cost allowance for income tax purposes in excess of depreciation of plants and equipment and amortization of special tooling expenditures charged in the financial statements, and to recording warranty expense in the financial statements in excess of that claimed for income tax purposes.

Investment tax credits which arise principally from the company making certain capital expenditures as prescribed in the Income Tax Act, are deferred and amortized over the lives of the related assets.

Inventories:

Inventories are stated at the lower of cost and market. Cost is determined substantially by the first-in, first-out or the average-cost method. Market value is calculated as current sales price less distribution cost for finished products and as replacement cost for other inventories.

NOTES TO FINANCIAL STATEMENTS

December 31, 1986

Property, Depreciation and Amortization:

Property is stated at cost. Depreciation is provided for on groups of property using, with minor exceptions, an accelerated method which accumulates depreciation of approximately two-thirds of the depreciable cost during the first half of the estimated lives of the property. The annual group rates of depreciation are as follows:

Classification of property	Annual Group Rates
Land improvements	2½% to 7½%
Buildings	1¾% to 5¼%
Machinery and equipment	2½% to 18¾%
Furniture and office equipment	2½% to 18¾%

Expenditures for special tools are amortized over short periods of time because the utility value of the tools is radically affected by frequent changes in the design of the functional components and in the appearance of the product. Replacement of special tools for reasons other than changes in products is charged to cost of sales.

Equity in Net Assets of Associates:

The company accounts for its investments in dealership companies, which are temporary in nature, and corporate joint ventures, on the equity basis of accounting.

Pension Program:

The company participates with affiliated Canadian companies in pension plans covering substantially all of its employees. Benefits under the plans are generally related to length of service, wages and salaries and, where applicable, contributions. The costs of these plans are determined on the basis of actuarial cost methods, and include the amortization of past service costs over periods not exceeding fifteen years.

Product-Related Expenses:

Expenditures for research and development and for advertising and sales promotion are charged to costs and expenses when incurred; provisions for estimated costs related to product warranty are made at the time the products are sold.

NOTE 2. Real Estate, Plants and Equipment

	1986	1985
	<i>(thousands of dollars)</i>	
Land, buildings and improvements	\$1,137,540	\$ 939,138
Machinery, equipment and furniture	2,403,072	1,947,050
Construction in progress	454,351	350,806
Total	\$3,994,963	\$3,236,994

NOTE 3. Equity in Net Assets of Associates

- On December 15, 1986, the company entered into a Shareholder Agreement with Suzuki Motor Co. Ltd. establishing a joint venture company, CAMI Automotive Inc., initially to manufacture and assemble subcompact and sport utility vehicles for sale to the company and its affiliates and to Suzuki Canada and affiliates for distribution throughout North America. Under the terms of the agreement, the company has a 50% share in the joint venture company and to December 31, 1986 has contributed U.S. \$25 million (Can. \$34 million) in capital to the company. The company is committed to make an additional U.S. \$25 million (Can. \$34 million) contribution by June 30, 1987 and U.S. \$25 million (Can. \$34 million) by December 31, 1987.
- On December 31, 1986 the company entered into an agreement whereby it acquired a 24% interest in Volvo GM Canada Heavy Truck Corporation. The new company was formed for the purpose of manufacturing, assembling and distributing heavy-duty truck products and certain medium-duty truck products in Canada.
- On September 30, 1986 the net book value of the assets of Motors Holding of Canada Limited were donated to the company by its parent company. The donation amounting to \$33,113,000 has been reflected as "contributed surplus".

NOTE 4. Long-term Debt

	1986	1985
9¼% notes payable; due December 16, 1991	\$100,000,000	\$ —

In conjunction with the issuance of the notes payable, the company entered into a five year interest rate swap agreement whereby the 9¼% fixed interest rate was converted into an interest rate based on the 30 day Banker's Acceptance rate of a major bank, less a specified discount.

NOTES TO FINANCIAL STATEMENTS

December 31, 1986

NOTE 5. *Income Taxes*

A reconciliation of the company's statutory rate to its effective income tax rate is as follows:

	1986	1985
Combined federal and provincial statutory income tax rate	50.8%	48.8%
Income tax allowances		
Manufacturing and processing	(6.0)	(6.0)
Inventory	(0.6)	(1.0)
Investment tax credits	—	1.2
Other items	1.8	1.4
Effective income tax rate	46.0%	44.4%

NOTE 6. *Pension Program*

At December 31, 1986, the pension plan funds, at market value, and balance sheet accruals exceed the actuarially computed present value of vested benefits by approximately \$492 million (\$419 million at December 31, 1985). Based upon actuarial estimates, past service costs not yet charged to operations at December 31, 1986 amount to approximately \$235 million (1985 — \$254 million), of which, approximately \$203 million has been funded and is included in other assets on the balance sheet. These costs are being charged to operations over periods of up to 15 years.

NOTE 7. *Related Party Transactions*

The company is a subsidiary of General Motors Corporation and participates with affiliated companies in the design, manufacture, assembly and distribution of products which relate to transportation equipment, consisting principally of passenger cars, trucks, coaches and locomotives as well as parts and accessories.

It has been the practice for a number of years to obtain at cost certain types of services from affiliates. In return, the company provides services at cost to affiliates.

Significant related party transactions with parent and affiliated companies, not otherwise disclosed in the financial statements, are as follows:

- (i) Net sales includes sales to parent and affiliated companies of \$10,913 million in 1986 and \$11,638 million in 1985.
- (ii) Approximately 51% of total costs and expenses arise from ordinary business transactions with parent and affiliated companies.

NOTE 8. *Capital Commitments*

Capital expenditures committed but not expended at December 31, 1986 amount to approximately \$633 million (1985 — \$805 million).

NOTE 9. *Contingent Liability*

There are various claims and pending actions against the company with respect to product liability, warranties and other matters arising out of the conduct of the business. The amounts of liability on these claims and actions at December 31, 1986 were not determinable but, in the opinion of management, the ultimate resulting liability will not materially affect the financial position or results of operations of the company.

NOTE 10. *Statement of Changes in Financial Position*

The 1986 statement of changes in financial position focuses on changes in cash and cash equivalents whereas the 1985 statement focused on changes in cash and marketable securities. The 1985 figures, presented for purposes of comparison, have been restated to conform to the 1986 presentation.

NOTE 11. *Subsequent Event*

On January 8, 1987 General Motors Corporation signed a letter of intent for the sale of its North American transit bus business. As part of the sale, the company will sell its St. Eustache, Quebec bus plant and service parts inventories relating to its transit business. The purchase price and resulting gain or loss on the disposal of this segment of the business has not yet been determined but is not expected to have a material effect on the company's financial statements.

BOARD OF DIRECTORS

G.A. Peapples
President and General Manager

R.M. Colcomb
*Former Vice President and
General Sales Manager*

EE. Conlin
Former Director of Manufacturing

J.R. Cooney
Comptroller

ER. Curd, Jr.
*Vice President and
General Director of Personnel*

H. Kunz
Treasurer

J.C. Larmond
*Vice President and General
Manager — Diesel Division*

R.W. McFarlane Q.C.
*Vice President and
General Counsel/Secretary*

R.J. Schultz
*Vice President
and Group Executive,
General Motors Corporation*

D.G. Stirling
Vice President, Sales and Marketing

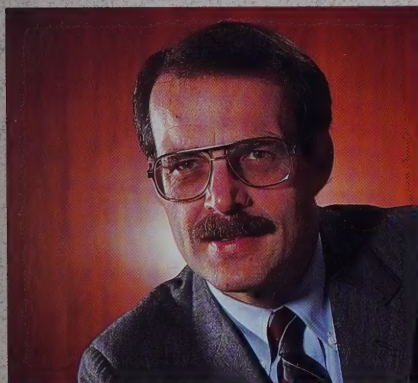
G.R. Wagoner, Jr.
*Vice President and Finance Manager
(elected January 5, 1987)*

E.H. Walker
*Former President and
General Manager*

A.G. Warner
*Vice President and
General Manufacturing Manager*

W.R. Waugh
*President, Financial Executives
Institute Canada and
Former Vice President and
Finance Manager, GM of Canada*

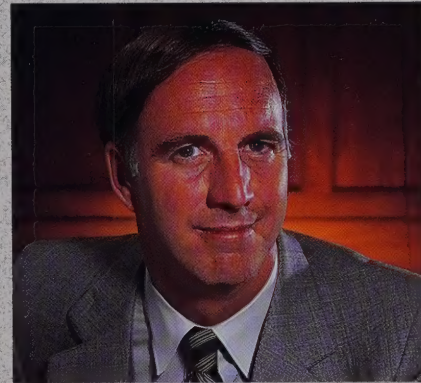
R.M. Wilson
Former Director of Purchasing



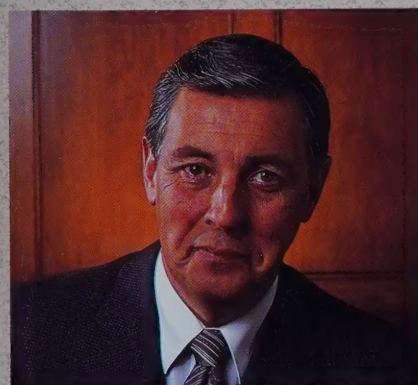
ER. Curd, Jr.



J.C. Larmond



R.W. McFarlane Q.C.



D.G. Stirling



G.R. Wagoner, Jr.



A.G. Warner

1986 in Review on Video

Again this year, you will be able to see the Company's **1986 In Review** on videotape. To receive your copy, please write to the Director of Public Relations, General Motors of Canada Limited, 215 William Street East, Oshawa, Ont. L1G 1K7 and indicate whether you would like VHS, Beta or ¾ inch tape.

Un exemplaire en français de cette **rétrospective 1986** est disponible sur demande par écrit à Service des relations publiques General Motors du Canada Limitée, 215 rue William est, Oshawa, Ontario L1G 1K7.

